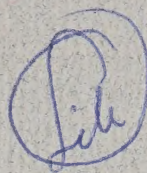
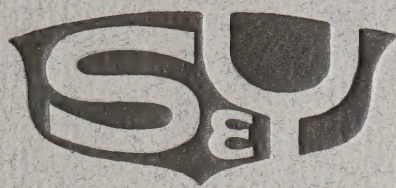


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SCOTTISH and YORK
1979
Annual Report

T. 527

Board of Directors

R. D. ABBOT
R. W. BROUGHTON
S. F. CHAPMAN
K. H. DOYLE
W. G. HOLBROOK
M. LANDIS
ST. CLAIR McCABE
A. D. McEWEN
K. R. THOMSON
J. A. TORY

Officers

R. W. BROUGHTON — *Chairman of the Board and Chief Executive Officer*
W. G. HOLBROOK — *President and Chief Operating Officer*
R. D. ABBOT — *Vice-President and Secretary-Treasurer*
S. F. CHAPMAN — *Vice-President — Finance*
J. A. TORY — *Vice-President*
D. A. BOYD — *Vice-President*
N. W. McDERMOTT — *Vice-President*

Transfer Agent

MONTREAL TRUST COMPANY

Auditors

THORNE RIDDELL & CO.

Bankers

THE ROYAL BANK OF CANADA

Executive Office

155 UNIVERSITY AVENUE, TORONTO, CANADA

SCOTTISH & YORK HOLDINGS LIMITED

To The Shareholders

Nineteen Hundred and Seventy-nine was a challenging year for Scottish & York Holdings Limited. Despite the intense competition experienced throughout the year, net income of \$10,362,235 was only slightly below the record \$10,551,440 earned in 1978. Gross premiums written were up 7.8% from \$125,037,555 to \$134,727,478 while net premiums written rose 38% from \$60,043,358 to \$82,682,297. The substantial increase in net premiums written reflects, in part, the rearrangement of our various reinsurance treaties during 1979. Our underwriting profit, not unexpectedly, was down substantially from \$7,024,685 to \$1,075,424 while investment income rose to a record \$14,429,687 compared to the previous high of \$9,266,030 established in 1978.

Nasser

Our operations continued to expand in 1979. Market penetration increased substantially, although this is not fully reflected in premiums written due to the effect of competition on rate levels. A fifth regional office was opened in April of 1979 in Los Angeles, California. Eight additional licenses were obtained by Guarantee Insurance Company during the year, making a total of 45 states in which it is admitted. Lincoln Insurance Company obtained six more approvals for a total of 49 states in which it is now qualified. In addition, both companies are approved or licensed in the District of Columbia, Virgin Islands and Puerto Rico.

A substantial commitment was made in 1979 towards improving our E.D.P. system in the United States. The new system is expected to be operational by January 1, 1981 and will greatly enhance our ability to cope with the substantial growth we anticipate over the next decade.

Although we experienced two disappointing years in the early 1970's, your company has made excellent progress during the past decade taken as a whole. Gross premiums written were up 1,091%, shareholders equity increased 908%, assets increased 1,498% and earnings were up 794%.

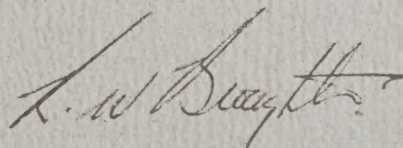
The 1980's will present their own unique challenges and opportunities and we remain confident that with its innovative approach and strong resources, your company will continue to perform significantly better than industry averages.

On behalf of the Board of Directors, I would like to express our thanks to the management and staff for their untiring efforts during 1979.

alta Rm RYH

10:30 am

For the Board of Directors



R. W. BROUGHTON
Chairman of the Board and
Chief Executive Officer.

Our Source of Revenue

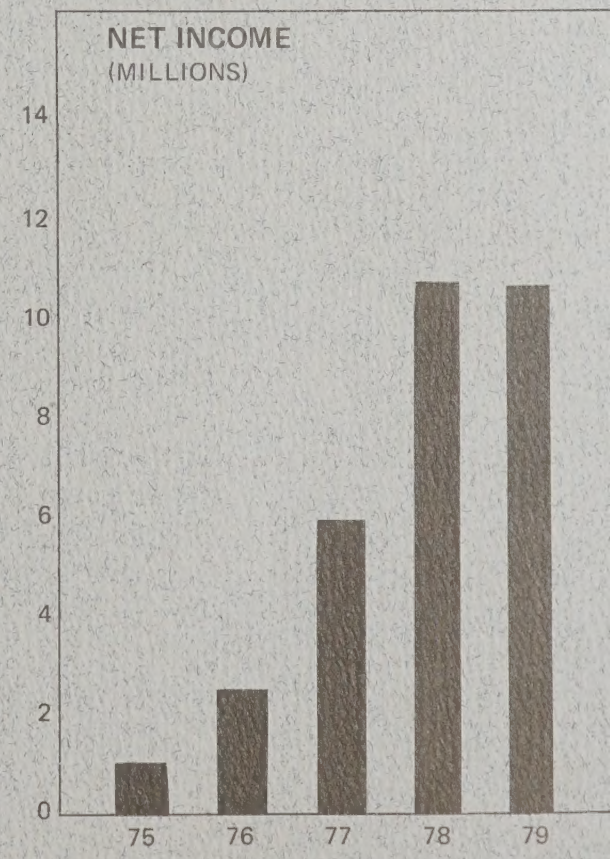
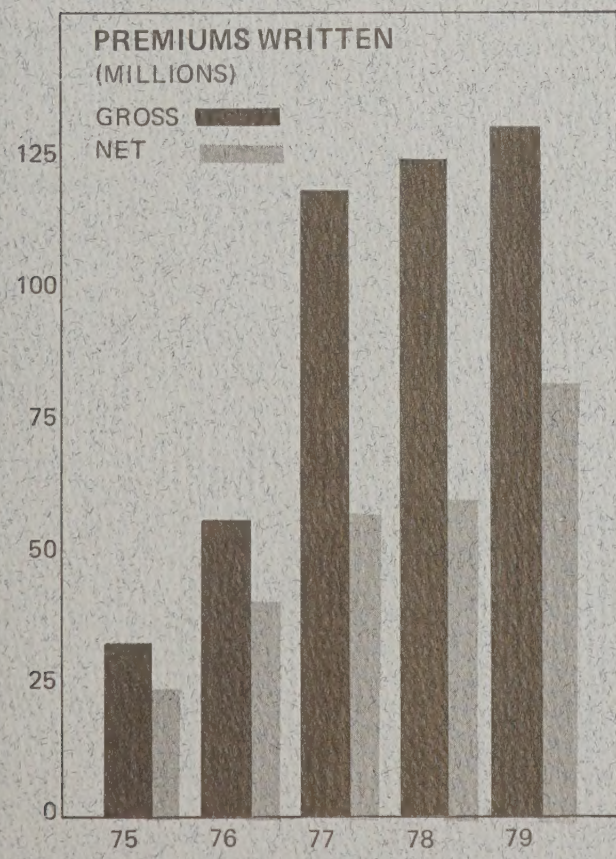
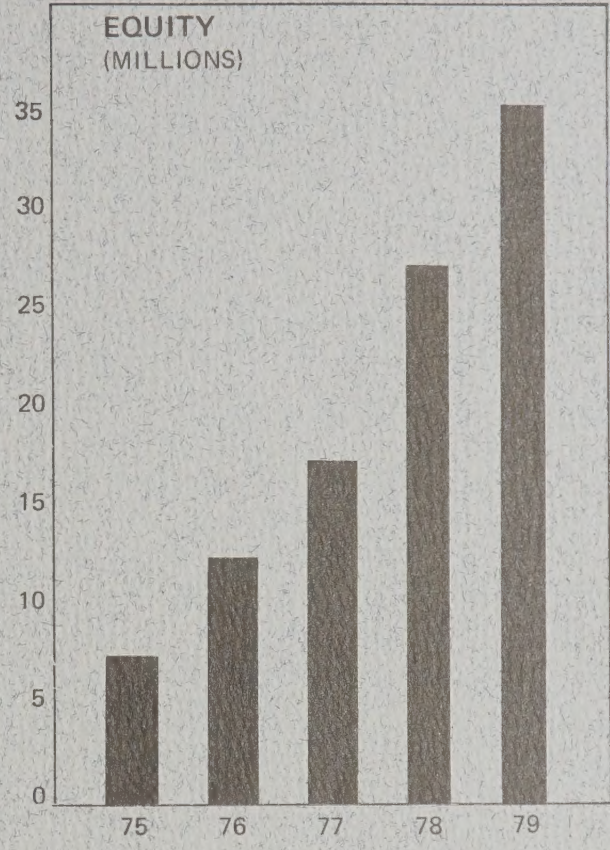
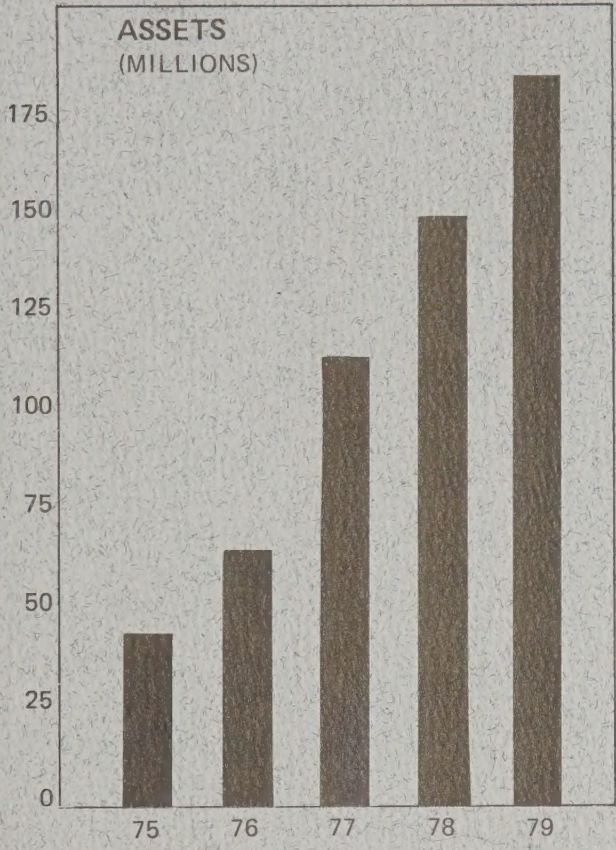
The principal business of the operating companies of the Scottish & York Group is the underwriting of property and casualty insurance and reinsurance — the assumption of risk. These underwriting activities fall into three well defined areas: PERSONAL LINES, COMMERCIAL LINES and REINSURANCE.

PERSONAL LINES are the insurance policies sold to the public to protect against damage to personal property and against personal liabilities. This area of the marketplace has always formed an important part of Canadian operations and the recent introduction of a programme to underwrite motorcycle insurance marks the entry of our operating companies in the United States into the personal lines market.

COMMERCIAL LINES are the policies sold to business and governmental bodies to protect against damage to their properties and against the liabilities resulting from their operations and products. Underwriting of commercial lines requires the versatility to deal with risks as diverse as the corner store and the most modern petrochemical plant; rural school boards and large municipalities; farm crops and grain terminals; delivery vans and mammoth trucks.

REINSURANCE is the assumption of risks underwritten by other insurance companies. Every form of protection that is a subject for insurance is also a subject for reinsurance. From the sharing of regular forms of risk to protection against natural and man-made catastrophes. The business is international in scope, complex to underwrite, intensely competitive and is pursued by the majority of larger insurers around the world.

Diversification of underwriting, whether it be insurance or reinsurance, is extremely important. It protects the insurer against the ravages of a poor underwriting year from one or two lines of business and it makes our insurance companies a more attractive underwriting vehicle for the agents and brokers who support the group.



SCOTTISH & YORK HOLDINGS LIMITED (Incorporated under the laws of Scotland)
CONSOLIDATED BALANCE SHEET DECEMBER 31, 1979

ASSETS		
	<u>1979</u>	<u>1978</u>
Cash	\$ 2,036,796	\$ 2,331,663
Marketable securities (note 2)		
Term deposits	18,687,174	22,459,524
Bonds (market value 1979, \$87,004,228; 1978, \$80,969,123)	94,288,446	85,093,514
Stocks (market value 1979, \$23,098,603; 1978, \$9,114,260)	21,937,773	10,423,428
Accrued interest on bonds and term deposits . . .	2,167,244	1,641,209
Accounts receivable	44,268,808	29,531,744
Furniture, fixtures and automobiles less accumulated depreciation 1979, \$361,599; 1978, \$209,510	920,523	579,608
Premium paid on acquisition of shares of subsidiary companies, net of amortization of \$229,725 (1978, \$185,733)	1,371,919	1,302,592
	<u>\$185,678,683</u>	<u>\$153,363,282</u>

Approved by the Board

W. G. HOLBROOK, Director

R. D. ABBOT, Director

LIABILITIES

	<u>1979</u>	<u>1978</u>
Notes payable (note 3)	\$ 16,082,000	\$ 11,115,192
Accounts payable and accrued liabilities	16,898,386	31,909,641
Provision for outstanding claims	86,055,494	55,641,631
Income and premium taxes payable	2,275,360	2,721,184
Deferred revenue	24,373,278	21,375,408
Interest of minority common shareholders of subsidiary companies	3,752,076	2,800,372
	<u>149,436,594</u>	<u>125,563,428</u>

SHAREHOLDERS' EQUITY

Capital stock		
Authorized		
10,000 First preference shares, par value		
\$50 each, issuable in series		
12,000,000 Common shares without par value		
Issued		
8,000,000 Common shares	3,701,000	3,701,000
Retained earnings	32,541,089	24,098,854
	<u>36,242,089</u>	<u>27,799,854</u>
	<u>\$185,678,683</u>	<u>\$153,363,282</u>
Contingent liabilities and contractual commitments (note 4)		

SCOTTISH & YORK HOLDINGS LIMITED
and subsidiary companies

CONSOLIDATED STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 1979

	1979	1978
Gross premiums written and other income	<u>\$149,157,165</u>	<u>\$134,169,071</u>
Underwriting profit	1,075,424	7,024,685
Investment income	<u>14,429,687</u>	<u>9,266,030</u>
	15,505,111	16,290,715
Interest on notes payable	<u>1,275,986</u>	<u>470,808</u>
Income before undernoted items	14,229,125	15,819,907
Income taxes	<u>3,028,003</u>	<u>4,495,594</u>
Income before minority interest	11,201,122	11,324,313
Interest of minority common shareholders of subsidiary companies	<u>838,887</u>	<u>772,873</u>
NET INCOME	<u>10,362,235</u>	<u>10,551,440</u>
Earnings per share	<u>\$1.30</u>	<u>\$1.32</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
YEAR ENDED DECEMBER 31, 1979

	1979	1978
BALANCE AT BEGINNING OF YEAR	\$ 24,098,854	\$ 15,167,414
Net income	<u>10,362,235</u>	<u>10,551,440</u>
	34,461,089	25,718,854
Dividends on common shares	<u>1,920,000</u>	<u>1,620,000</u>
BALANCE AT END OF YEAR	<u>\$ 32,541,089</u>	<u>\$ 24,098,854</u>

SCOTTISH & YORK HOLDINGS LIMITED
and subsidiary companies

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31, 1979

	1979	1978
RESOURCES PROVIDED		
Operations (as outlined below)	\$14,547,093	\$28,827,342
Decrease in term deposits	3,772,350	
Proceeds from notes payable	6,101,308	7,557,192
Decrease in cash	294,867	336,972
	<u>\$24,715,618</u>	<u>\$36,721,506</u>
RESOURCES APPLIED		
Purchase of marketable securities, net		
Bonds	\$ 9,194,932	\$29,347,648
Stocks	11,514,345	2,598,614
Increase in term deposits		287,256
Notes payable	1,134,500	478,147
Purchase of furniture, fixtures and automobiles, net	505,515	415,533
Increase in premium paid on acquisition of shares of subsidiary companies (note 1(a))	113,319	412,582
Dividends on common shares	1,920,000	1,620,000
Net change in other assets and liabilities	333,007	1,561,726
	<u>\$24,715,618</u>	<u>\$36,721,506</u>
Operations		
Net income	\$10,362,235	\$10,551,440
Items not involving cash		
Depreciation	164,600	89,651
Amortization of premium paid on acquisition of shares of subsidiary companies (note 1(e))	43,992	116,503
Interest of minority common shareholders of subsidiary companies	838,887	772,873
Increase in deferred revenue	2,997,870	1,721,771
Increase in provision for outstanding claims	30,413,863	15,581,882
Increase (decrease) in accounts payable and accrued liabilities	(15,011,255)	9,523,797
Increase in accounts receivable and accrued interest	(15,263,099)	(9,530,575)
Resources provided from operations	<u>\$14,547,093</u>	<u>\$28,827,342</u>

SCOTTISH & YORK HOLDINGS LIMITED

and subsidiary companies

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1979

1. ACCOUNTING POLICIES

The consolidated financial statements have been prepared in conformity with generally accepted accounting principles which, as to the subsidiary insurance companies, differ in some respects from statutory accounting practices followed in the preparation of financial statements submitted to regulatory authorities.

(a) Principles of Consolidation

The consolidated financial statements include all the subsidiary companies, which are:

	Percentage ownership
Canada	
Scottish & York Insurance Co. Limited	97.92%
Central Canada Insurance Service Limited	100
Victoria Insurance Company of Canada	99.1
Scottish & York (Nova Scotia) Limited	100
United States	
Scottish & York, Inc.	100
Lincoln Insurance Company	80
Lincoln Management Corp.	80
Associated Treaty Managers, Inc.	80
Guarantee Insurance Company	80
Scottish & York Management Corporation	80
Scottish & York International Insurance, Inc.	80
Scottish & York Premium Company	80
Scottish & York Insurance Services Inc.	80
Bahamas	
Victoria Insurance Company Limited	100

Under an agreement dated June 27, 1975, among Scottish & York Holdings Limited, International Insurance Holdings Corporation, Scottish & York, Inc. and Scottish & York International Insurance, Inc. relating to the July 1, 1975 acquisition of the 80% interest in the U.S. subsidiaries provision is made whereby additional consideration may be payable depending on the level of future profits of the U.S. subsidiaries. The purchase agreement also provides for adjustments in respect of uncollected accounts receivable, undisclosed liabilities and unreflected assets at that date.

As a result of the application of these covenants of the purchase agreement a provision for additional purchase consideration amounting to \$113,319 for the current year and \$1,035,774 from inception of the agreement has been paid or accrued in the accounts.

(b) Translation into Canadian Dollars

The accounts of the subsidiary companies in the United States and the Bahamas have been translated into Canadian dollars on the following basis:

- (i) assets and liabilities of a monetary nature at the rate of exchange prevailing at December 31,

- (ii) all other assets and liabilities at the rate of exchange prevailing at the date the assets were acquired or the liabilities incurred,
 - (iii) income and expenses at the average rate for the year.
 - (iv) Foreign currency gains and losses are included in income when realized.
- (c) **Marketable Securities**
- (i) Term deposits are recorded at cost.
 - (ii) Bonds are recorded at cost or amortized cost.
Interest income is recorded on an accrual basis.
 - (iii) Stocks are recorded at cost.
Dividend income is recorded on a cash received basis.
 - (iv) Gains and losses on disposal of investments are determined on a first in, first out basis.
- (d) **Furniture, Fixtures and Automobiles and Accumulated Depreciation**
Furniture, fixtures and automobiles are recorded at cost, less accumulated depreciation.
Furniture, fixtures and equipment are depreciated over their estimated useful lives at varying rates ranging from 12½% straight line basis to 20% reducing balance basis.
Automobiles are depreciated over their useful life at the rate of 30% reducing balance basis.
- (e) **Premium Paid on Acquisition of Shares of U.S. Subsidiary Companies**
The company amortizes such premium over forty years from date of acquisition.
- (f) **Deferred Revenue**
- (i) **Deferred commission income and policy acquisition costs.**
Policy acquisition costs, net of reinsurance allowances, are deferred and amortized over the terms of the related policies. For the years 1979 and 1978 deferred commission income exceeded deferred acquisition costs. Accordingly, the net credit balance is included in deferred revenue.
 - (ii) **Deferred premium income.**
Premium income is deferred until it is earned. The basis for taking premiums into income is in accord with policies prescribed by the regulating organizations under which the companies operate.
- (g) **Provision for Outstanding Claims**
The liabilities for losses and claims and related adjustment expenses are determined using case basis evaluations plus a provision for unreported claims and represent estimates of the ultimate net cost of all losses and claims incurred through December 31, 1979. Since the provisions are necessarily based on estimates of future trends in claim severity and frequency and other factors, which could vary as the losses are settled, the ultimate liability may be more or less than the estimated amounts. These liabilities have been stated net of reinsurance recoverable from other companies. Although it is not possible to measure the degree of variability inherent in such estimates, management believes that the liabilities for losses and related adjustment expenses are adequate. The estimates are continually reviewed and, as adjustments to these liabilities become necessary, they are reflected in current operations.
- (h) **Recognition of Income**
A subsidiary company, Associated Treaty Managers, Inc., manages a number of reinsurance arrangements for which it receives management fees based upon earned premiums. The fee income is recognized simultaneously with the recognition of earned premiums by the reinsurers.

2. MARKETABLE SECURITIES

Marketable securities having a market value of approximately U.S. \$943,298 at December 31, 1979 were deposited to secure liabilities from participation in reinsurance pools and reinsurance ceded contracts.

3. NOTES PAYABLE

	<u>Total</u>	<u>Due within one year</u>
Note payable to bank bearing interest at 11-5/8%, due December 31, 1980 (\$5,000,000 U.S.)	\$ 5,848,000	\$ 5,848,000
Note payable to bank bearing interest at the rate of U.S. prime plus 1½% (\$2,750,000 U.S.)	3,216,400	584,800
Demand note payable to bank bearing interest at the rate of U.S. prime plus 1% (\$1,000,000 U.S.)	1,169,600	1,169,600
Note payable to bank bearing interest at 15½%, due April 30, 1980 (\$5,000,000 U.S.)	5,848,000	5,848,000
	<u>\$16,082,000</u>	<u>\$13,450,400</u>

Principal due in each of the next four years:

1980	\$13,450,400	(\$11,500,000 U.S.)
1981	877,200	(750,000 U.S.)
1982	877,200	(750,000 U.S.)
1983	877,200	(750,000 U.S.)
	<u>\$16,082,000</u>	<u>(\$13,750,000 U.S.)</u>

4. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

- (a) A wholly owned subsidiary company Victoria Insurance Company Limited, has been assessed Federal income taxes relating to the years 1968, 1969, and 1970 amounting to approximately \$1,000,000 including interest to November 30, 1973. A Notice of Objection was filed with respect to these assessments in 1974 and Revenue Canada, Taxation reconfirmed the assessments on February 6, 1975.

The company received a favourable judgement on an appeal to the Tax Review Board on September 7, 1977 but has received notification from Revenue Canada, Taxation of its intention to appeal the decision to the Federal Court of Canada. No date for a hearing of this second appeal has been set.

The company has deposited its share investment in subsidiary companies Scottish & York Insurance Co. Limited and Victoria Insurance Company of Canada with The Royal Bank of Canada to be held as security until the outcome of this appeal is known.

- (b) The company leases certain office space under lease agreements expiring in various years through 1985. The following is a schedule of future minimum lease payments for the leases with initial or remaining terms in excess of one year as of December 31, 1979:

Year Ending December 31

1980	\$ 410,667
1981	410,667
1982	257,314
1983	239,718
1984	161,521
1985	105,666
	<u>\$1,585,553</u>

Rental expense of \$677,529 was charged to income in 1979.

- (c) Subsequent to December 31, 1979 a United States subsidiary entered into negotiations for the purchase of certain real estate and equipment. The real estate comprises the acquisition of land and construction thereon of an office building, to be used primarily for United States operations, the total cost of which is estimated at U.S. \$8,000,000 with long term financing to be provided through the New Jersey Economic Development Authority. Equipment consists of the purchase of data processing equipment and related software estimated at a cost of U.S. \$750,000. It is anticipated that the office building will be completed in June, 1981, and that the computer equipment and related software will be substantially in place by December, 1980.

5. COMPARATIVE FIGURES

Certain 1978 comparative figures have been reclassified to conform with the financial statement presentation adopted for 1979.

6. OTHER STATUTORY INFORMATION

	<u>1979</u>	<u>1978</u>
Direct remuneration of directors and senior officers (as defined by The Business Corporations Act)	\$394,425	\$294,968
Depreciation	\$164,600	\$ 89,651
Amortization	\$ 43,992	\$116,503

Auditors' Report

To the Shareholders of
Scottish & York Holdings Limited

We have examined the consolidated balance sheet of Scottish & York Holdings Limited as at December 31, 1979 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada THORNE RIDDELL & CO.,
March 13, 1980 Chartered Accountants

SCOTTISH & YORK HOLDINGS GROUP

Five Year Performance Record

YEAR	GROSS PREMIUMS WRITTEN	NET PREMIUMS WRITTEN	DEFERRED REVENUE	INCOME BEFORE TAXES AND MINORITY INTEREST	INCOME TAXES	NET INCOME	EARNINGS PER SHARE	DIVIDENDS PAID PER SHARE
1979	134,727,478	82,682,297	24,373,278	14,229,125	3,028,003	10,362,235	\$1.30	24.0¢
1978	125,037,555	60,043,358	21,375,408	15,819,907	4,495,594	10,551,440	\$1.32	20.25¢
1977	116,094,454	58,638,786	19,653,637	11,205,643	4,179,277	6,252,237	78.2¢	10.75¢
1976	56,052,394	41,540,610	13,350,424	4,430,320	1,772,550	2,489,230	31.1¢	3.5¢
1975	31,676,100	24,373,390	10,256,951	1,244,773	377,293	910,286	15.2¢	—

- 1980 profit vs 1979 (1.30)
- changed, 1980 yr must make US part
in new 10, & much more liquid
- the new gov yr
- US part: US dollars?
- US dollar
- has and 15%
- has 12%
- our plan to increase dividend
- 1st 12 month (ends Dec 31)
- 12

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FIN



SCOTTISH
&
YORK

INTERIM
REPORT

JUNE 30, 1979

SCOTTISH & YORK HOLDINGS LIMITED
and Subsidiary Companies
CONSOLIDATED STATEMENT OF INCOME

TO THE SHAREHOLDERS

Net income for the six month period ended June 30, 1979 was \$5,027,588 or 63c per common share compared to \$5,763,256 or 72c per common share for the same period last year.

Earnings for the first half of 1979 reflect the continued erosion of underwriting profit experience by the North American insurance industry. Competition remains strong resulting in depressed rates despite increasing claims costs and accident frequency. Due in part to the larger asset base and an improved rate of return, a substantial increase in investment income has been realized which has helped to offset the reduction in underwriting profit. It would appear these conditions will prevail for at least the balance of the year.

R. W. BROUGHTON
Chairman of the Board and
Chief Executive Officer

August 24th, 1979

	Six Months Ended	
	June 30, 1979	June 30, 1978
Gross Premiums Written and Other Income	\$67,105,928	\$65,741,512
Underwriting Profit	752,366	5,447,976
Investment Income	6,486,055	4,080,314
Interest on Notes Payable	7,238,421	9,528,290
	625,797	209,969
Income Taxes	6,612,624	9,318,321
	1,273,915	3,061,302
Interest of Minority Common Shareholders of Subsidiary Companies	5,338,709	6,257,019
	311,121	493,763
Net Income	\$ 5,027,588	\$ 5,763,256
	63¢	72¢

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Six Months Ended	
	June 30, 1979	June 30, 1978
Resources Provided		
Operations:		
Net Income for the Six Months	\$ 5,027,588	\$ 5,763,256
Add Items not Involving a Current Outlay of Funds		
Depreciation	60,761	24,900
Interest of Minority Common Shareholders of Subsidiary Companies	311,121	493,763
	5,399,470	\$ 6,281,919
Increase in Accounts Payable	—	4,008,356
Increase in Provision for Outstanding Claims	18,749,402	6,953,154
Increase in Deferred Revenue	4,858,752	1,899,783
Decrease in Cash	2,081,191	1,016,933
Increase in Notes Payable	—	96,162
	\$31,088,815	\$20,256,307
Resources Applied		
Decrease in Accounts Payable	\$16,413,130	\$ —
Purchase of Marketable Securities, Net	6,996,341	7,777,567
Increase in Accounts Receivable	5,341,310	9,912,300
Decrease in Notes Payable	669,192	—
Decrease in Taxes Payable	196,022	1,413,872
Dividends on Common Shares	960,000	660,000
Net Change in Other Assets and Liabilities	512,820	492,568
	\$31,088,815	\$20,256,307